ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1983 - 1984)

Established by an Act of the Provincial Legislature in June, 19[illegible] the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

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prince edward island
lending authority

A CROWN CORPORATION
EST. 1969

TEL: (902) 892-4247 - KENT PLACE - 134 KENT ST., P.O. BOX 1420, CHARLOTTETOWN, P.E.I., CANADA, C1A-7N1

July 10, 1984

The Honourable Lloyd G. MacPhail
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Honourable Sir:

We are pleased to submit herewith, as required by the Prince Edward Island Lending Authority Act, the Annual Report on the operation of the Lending Authority for the fiscal year ending March 31, 1984.

Respectfully submitted,

William B. Hatton
Chairman of the Board

BOARD OF DIRECTORS
PRINCE EDWARD ISLAND LENDING AUTHORITY
AS AT MARCH 31, 1984

CHAIRMAN	
William B. Hatton	Farmer, Morell R.R.#2
VICE-CHAIRMAN	
Francis A. Gauthier	Fisherman, North Rustico
SECRETARY-TREASURER	
William M. Jay*	General Manager, Lending Authority
MEMBERS	
Peter MacAulay	Farmer, Chepstow
St. Clair Duffy	Farmer, Kinkora
Robert H. Minard	Farmer, Ebenezer
John Morse	Tourist Resort Owner, Montague
Alan C. McLeod	Businessman, Charlottetown
Stanhope Moore	General Manager, Land Development Corporation
Harry O'Connell	Deputy Minister, Department of Fisheries and Labour
H. Lloyd Palmer	Deputy Minister, Department of Agriculture
W.P. MacDougall	Deputy Minister, Department of Finance and Tourism

* Non Voting

SCOPE OF ACTIVITY

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1983 - 1984)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.

- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — may be obtained for a three year period repayable in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.

- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season.

- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.

- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Businesses for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.

- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million in the preceeding fiscal year.

- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- Interest rates on Capital Loans and operating credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1983 - 1984)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fishermen, tourist operators and small businesses in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers and small business, the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loans portfolios of the Lending Agencies of the Government of Prince Edward Island existing prior to April, 1970. The Authority is also the representative of the Federal Department of Fisheries and Oceans for their fishing vessel subsidy program.

The authority, now in its fifteenth year of operation, has been accepted both by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

ANNUAL REPORT OF THE GENERAL MANAGER

It is a distinct privilege for me to present this, my fifteenth Annual Report as General Manager. We are pleased to report that the past fiscal year was the most productive in the Authority's history, with loans and credit approved totalling $27,300,000, an increase in dollars from the previous year of $9,500,000 or a percentage increase of 53%.

A complete statistical report on loans and credit approved will be found on page 10 of this Annual Report.

Applications for loans and credit during the fiscal period aggregated $46,600,000, a 47% increase from the previous year. The new Small Business Sector accounted for a substantial amount of this increase, but all sectors recorded increased activity.

As in past years, the Agricultural Sector accounted for the largest percentage of loans and credit approved, 145 Capital loans and 83 Working Capital Credits, totalling $13,708,310, a 13% increase over the previous fiscal period.

Our Fisheries Sector recorded a 29% increase in loans approved in 1983 - 1984 from $1,842,323 in 1982 - 1983 to $2,382,177. The loans approved included loans for 48 new inshore vessels, which were subject to the Fishing Vessel Subsidy Program of the Government of Canada. This program is administered by the Lending Authority in Prince Edward Island. The subsidy is equal to 25% of the gross cost of the vessel, which enhances considerably the total investment in the inshore fishery during the year. Our Fisheries Loan Portfolio is in excellent standing with no vessels arrested or losses incurred during the year in review.

Tourism Sector loans increased from $2,500,000 in 1982 - 1983 to $4,483,000, a percentage increase of 79%. This increase is attributed to a very successful Capital Grants Program initiated by the Federal Department of Regional & Industrial Expansion and, a reduction in interest rates to more acceptable levels. No fore-closures or losses were incurred in this portfolio during the year in review.

The Small Business Sector became operational on July 4, 1983 upon the Proclamation of the Amendments to the Lending Authority Act of Incorporation. The initial demand from the Small Business community was such that evaluation of loan applications became a major staff problem with loan offers in some instances being delayed for periods of up to 60 days due to the demand on both our staff and appraisers time. We approved 48 loans totalling $6,716,250. It can be accurately stated that this program rescued a substantial number of Small Businesses from financial distress.

In my last Annual Report, we stated: "Regrettably, we also had a number of fore-closures during the year that were not completed at fiscal year end because of delay in closing property transactions and, we will be reporting on these fore-closures in our next Annual Report." As will be noted in this Report, losses incurred as above referred to and, during the fiscal year 1983 - 1984 amounted to $134,418 on six farm failures. This amount represents 0.49% of loans approved in fiscal 1983 - 1984.

Despite the improved economic climate, more acceptable rates of interest and better than average returns to potato producers during 1983 - 1984, financial problems still exist amongst our agricultural producers. In our opinion, and opinion shared by my colleagues in Agricultural Lending, poor financial management is the root cause of most of those experiencing difficulty.

On February 22, 1984, we had the pleasure of being invited by Farm Credit Corporation to deliver the Luncheon Address to their twenty-fifth anniversary conference in Moncton, New Brunswick. We were asked to speak to the topic - "Farm Financial Management". As we have strong personal feelings in this regard, we are including in this report several quotations from that address which outlines in definitive terms the existing problems and offers some suggestions for rectification.

"We all, I am sure, fully recognize that there are financial difficulties on the farm and, I will not minimize the difficulties being experienced by some farmers, nor do I suggest all of these problems are totally within their ability to control But let us not present too bleak a picture. While farm bankruptcies have received widespread attention from the media, who, for the most part, have placed the blame for such failures on lenders, nevertheless, farm bankruptcies over the past several years, in relation to other sectors of the economy, have been low and, the ratio of farmers in severe financial difficulty is probably in the order of 5%. It is on this group that we must focus our attention. A farm bankruptcy is certainly a dramatic experience for those involved and, the issue tends to be a very emotional one, simply because farming is viewed more as a way of life than a business, which is a view I must strongly disagree with."

"The traditional formula for farm profitability no longer automatically exists, if indeed it ever did. A combination of good production capability and plain hard work may at one time have guaranteed success. In today's environment, if the farmer is not as proficient in financial management as in crop and livestock husbandry, profitability may prove to be an elusive goal."

"Let us then look at farming as a business, which it most surely is. To do this, let us consider some numbers. I might add that these numbers are taken from Statistics Canada and Farm Credit Statistical reports. In 1971, total farm debt stood at $4.6 billion dollars. It is expected to reach $20 billion dollars in 1984. In 1971, an average farm was 465 acres and represented a capital investment of $66,000. By 1981, the average farm had grown to 530 acres and represented a capital investment of $410,000."

"The Lending Authority recently established a new loan division to service small businesses on Prince Edward Island. Based on the financial statements of the companies that we have assisted so far, assets, liabilities, and net worth pale when compared to even medium size farming operations and, operating credit requirements are minimal when compared to the potato producer growing from 4-500 acres of potatoes. The small companies to which I have referred normally employ an accountant or have as a director or partner a person with a strong financial background. Now let us ask ourselves, how many medium to large scale farmers employ financial management? What I am endeavoring to establish, is that for the most part, farmers have not in many cases realized the importance of managing the financial aspect of their farming business, which is big business in comparison and, this has been to their detriment."

"New technology has also allowed for specialized production and, again, that calls for more sophisticated financial management. It is needed to maximize the potential for greater profits and, it is also a must, given the increased levels of risk. A cost of specialization is the diminishing of the possible financial cushioning provided by mixed farming, which used to be the norm on most farms. Here in New Brunswick, as well as in Prince Edward Island, potato producers are an excellent example of what we are talking about. Today, the average farmer not only has to know local markets, but national markets and international markets, as well, he needs to be as sophisticated as any other businessman competing in the market place."

"Those of us, who have been involved in Agricultural Lending for the past several decades, know that much more detailed financial planning is now required in order to project the credit needs of farmers. Greater emphasis is being placed on debt serviceability than on collateral security, as in the past. More complex financial planning and credit analysis procedures are being introduced and are essential, so that we, as lenders, may have better data on which to base our loan decisions and, in this respect, I feel that on-farm computers will take on the same importance on the farm as the tractor and plow in the next few years."

"Farm lenders have experienced substantially greater difficulties in the past several years, as a result of the economic squeeze that has been experienced in this country, and, as lenders, our loan losses have increased as a result. But, an analysis of these losses indicated that in most cases the failure was caused, not by low farm gate returns, but by poor financial management practices".

"What then is our role as farm lenders in endeavouring to correct poor financial management practices on the farm? In my opinion, the onus must be squarely on the shoulders of the individual farmer. He must be self-motivated in his desire to seek help and, be prepared to accept and act on advice given, if he is to survive as an independent farmer/businessman."

"Who should undertake the role of financial counselling to farmers? There are a variety of sources, chartered accountants, management consulting firms, farm management specialists in the Provincial Departments of Agriculture and, in some cases, possible lawyers. But, whatever the source, the bottom line is the same. Improved financial management is an absolute necessity for Canadian farmers. This also means more emphasis on financial management training at our Agricultural Colleges and also, in our high schools and universities. There also should be more financial management courses and seminars for farmers to upgrade skills in the years after formal schooling. This could be the responsibility of farm groups, government, yes, even farm lenders, if done on a basis totally removed from any lending programs."

"I do not feel that as lenders we should be continually supporting chronically poor managed farming operations requiring constant monitoring and follow-up, although I realize the possible implications. To delve very briefly into the future, it seems to me that farming will become much more sophisticated with larger production units, requiring substantial amounts of capital. These farm units will require highly skilled managers and, the reality will be that those who cannot adapt to the new techniques will not survive."

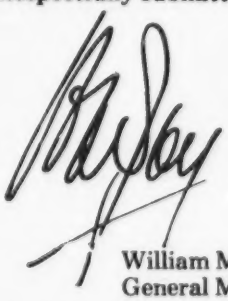
To emphasize the above remarks, we can report that we have initiated mortgage sale proceedings on a very large potato farming operation encompassing over 1,500 acres of land. Further, we expect that during the coming year, several other medium to large scale potato operations will fail despite better than average returns for the 1983 crop. In these situations, it is simply a case of too much debt, as the result of poorly planned expansion programs, with debt servicing beyond the capability of the farming operation to generate, or as we have been emphasizing, clearly poor financial management.

Although we expect a reduction in volume of applications in the coming year, the Lending Authority will continue to play an important role in the economic development of the province through its loan programs.

We should note that the Lending Authority was able to maintain its operation within its budget appropriation during the year. It should also be noted that as at March 31, 1984, the Lending Authority, since its inception, has extended loans and credit to farmers, fishermen, tourist operators and small business in the province in the approximate amount of $127,271,532.

To conclude our report, I am pleased to advise that management and staff at the Lending Authority enjoy an excellent rapport with the Chairman of the Board of Directors, and the Board Members, with the Minister Responsible, Hon. Lloyd G. MacPhail and with the various departments and agencies both of the Federal and Provincial Governments, and the business community-at-large with whom it must cooperate.

Respectfully submitted,



William M. Jay
General Manager

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATISTICAL INFORMATION
APRIL 1, 1983 - MARCH 31, 1984
(with comparative figures for fiscal 1982/83)

1. Total number of applications received

	1982/83	1983/84
Agriculture	335	349
Fisheries	161	144
Tourism	71	88
Small Business	24	71
	591	652

2. Total dollar value of applications received

Agriculture	$21,900,241	$23,776,908
Fisheries	2,841,033	3,954,607
Tourism	4,760,000	8,840,053
Small Business	2,074,780	9,979,606
	31,576,054	46,551,174

3. Disposition of Applications

Approved:				
AGRICULTURE				
Capital	142 for	5,812,452	145 for	7,688,410
Working Capital	79 for	6,365,398	83 for	6,019,900
Total Loans	221	12,177,850	228	13,708,310
FISHERIES				
Capital	128 for	1,834,025	98 for	1,485,077
Working Capital	5 for	8,300	15 for	897,100
Total Loans	133	1,842,325	113	2,382,177
TOURISM				
Capital	44 for	2,366,520	47 for	4,390,855
Working Capital	2 for	135,000	4 for	91,500
Total Loans	46	2,501,520	51	4,482,355
SMALL BUSINESS				
Capital	5 for	203,375	46 for	5,956,250
Working Capital	4 for	1,085,000	2 for	760,000
Total Loans	9	1,288,375	48	6,716,250
TOTAL APPROVED	409	17,810,070	440	27,289,092
Applications withdrawn and/or declined	182	13,765,984	212	19,262,082
TOTAL	591	31,576,054	652	46,551,174

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF INTEREST EARNED — ALL SECTORS
FOR THE PERIOD APRIL 1, 1983 - MARCH 31, 1984

Agricultural Loans	$2,023,928
Fisheries Loans	262,361
Tourist Loans	862,043
Small Business Loans	599,681
Working Capital Credit	514,177
	$4,262,190

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF

LOAN PORTFOLIOS ASSUMED

FOR THE PERIOD APRIL 1, 1983 - MARCH 31, 1984

Farm Establishment Board	
Balance March 31, 1983	$1,081,499
Payments received April 1, 1983 - March 31, 1984	182,799
Balance March 31, 1984	898,700
Tourist Loan Board	
Balance March 31, 1983	41,245
Payments received April 1, 1983 - March 31, 1984	23,634
Balance March 31, 1984	17,611
Industrial Loan Board and P.E.I. Industrial Corporation	
Balance March 31, 1983	59,061
Payments received April 1, 1983 - March 31, 1984	(414)
Balance March 31, 1984	59,475

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULE OF LOANS APPROVED

APRIL 15/70 - MARCH 31/84

YEAR ENDING	Agriculture Capital	Fisheries Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13	67	31	2	*156	269
	276,539	145,502	374,960	3,379	1,642,800	2,443,180
March 31/72	13	63	24	12	*131	243
	274,700	144,099	220,548	865,500	1,483,228	2,988,075
March 31/73	47	46	35	3	95	226
	669,564	185,239	901,927	51,145	1,272,435	3,080,310
March 31/74	46	94	20	4	87	251
	463,854	465,092	339,560	606,639	1,591,781	3,466,926
March 31/75	107	107	21	12	245	492
	906,246	365,051	529,189	278,950	2,554,176	4,633,612
March 31/76	44	54	14	12	135	259
	510,255	340,481	375,883	226,469	3,053,306	4,506,394
March 31/77	90	75	20	11	127	323
	905,663	295,978	954,247	619,107	3,782,268	6,557,263
March 31/78	107	69	15	10	93	294
	1,571,843	374,230	564,145	679,030	3,046,371	6,235,619
March 31/79	124	84	19	11	141	379
	1,655,196	910,515	1,119,950	830,067	4,875,293	9,391,021
March 31/80	176	103	27	16	104	426
	4,128,794	1,243,816	1,250,735	545,690	4,873,681	12,042,716
March 31/81	170	76	22	15	111	394
	5,215,462	856,635	1,701,220	900,296	6,691,154	15,364,767
March 31/82	133	102	17	11	71	334
	3,831,035	1,489,457	719,872	734,312	4,687,811	11,462,487
March 31/83	142	128	44	5	90	409
	5,812,452	1,834,025	2,366,520	203,375	7,593,698	17,810,070
March 31/84	145	98	47	46	104	440
	7,688,410	1,485,077	4,390,855	5,956,250	7,768,500	27,289,092
TOTAL	1357	1166	356	170	1690	4739
	33,910,013	10,135,197	15,809,611	12,500,209	54,916,502	127,271,532

*Guarantee Certificates to Approved Lenders' - Program discontinued in 1973.

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF LOAN FLOW
FOR THE PERIOD APRIL 1, 1983 - MARCH 31, 1984

Agricultural Capital Loans		
Balance March 31, 1983		13,814,914
Payments received April 1/83 March 31/84	4,814,702	
Interest and Disbursements	9,984,209	
Balance March 31, 1984		18,984,421
Fisheries Capital Loans		
Balance March 31, 1983		1,978,619
Payments received April 1/83 March 31/84	954,103	
Interest and Disbursements	1,374,611	
Balance March 31, 1984		2,399,127
Tourist Capital Loans		
Balance March 31, 1983		5,879,784
Payments received April ½83 March 31/84	1,572,822	
Interest and Disbursements	3,408,132	
Balance March 31, 1984		7,715,094
Small Business		
Balance March 31, 1983		2,057,589
Payments received April 1/83 March 31/84	878,403	
Interest and Disbursements	4,339,005	
Balance March 31, 1984		5,518,191
Working Capital - All Sectors		
Balance March 31, 1983		3,819,489
Payments received April 1/83 March 31/84	6,625,374	
Interest and Disbursements	6,285,030	
Balance March 31, 1984		3,479,145

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF WRITES-OFFS
AND RECOVERIES
FOR THE PERIOD ENDING MARCH 31, 1984

Bad Debts Written Off

J. Ronald MacIntyre, Bedford	$22,916
Raynor's Poultry Farm & Hatchery Ltd., Mt. Herbert	101
Peter Terpstra, St. Peters	38,094
Alexander MacNeill & Sons Ltd., Clyde River	46,888
F. & T. Smallman Ltd., O'Leary R.R.#1	7,337
Cecil Hughes, St. Mary's Road	19,082
	$134,418

Bad Debts Recovered

Edward Gallant	$200
Progress Realty Ltd.	163
Smallman Bros. Ltd.	5,000
	$5,363

PRINCE EDWARD ISLAND LENDING AUTHORITY
LOANS CLASSIFIED BY SECTOR AND RANGE
YEAR ENDING MARCH 31, 1984

RANGE	AGRICULTURE	FISHERIES	TOURISM	SMALL BUSINESS	TOTAL
$0-999	3	2			5
1,000-2,999	9	25	1		35
3,000-4,999	8	16			24
5,000-7,499	13	12	3	1	29
7,500-9,999	11	6	2		19
10,000-14,999	30	9	1	2	42
15,000-24,999	30	15	7	1	53
25,000-34,999	22	15	5	3	45
35,000-49,999	15	8	2	2	27
50,000-99,999	37	4	20	14	75
100,000-and over	50	1	10	25	86
	228	113	51	48	440

PRINCE EDWARD ISLAND LENDING AUTHORITY
COMPARISON OF LOANS APPROVED TO BAD DEBTS
APRIL 15/70 - MARCH 31/83

Year Ending	Total Loans	Write-Offs	Percent Of Total Loans	Recovery
March 31, 1971	2,443,180			
March 31, 1972	2,988,075	172,698	5.78	
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.80	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31, 1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487			2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
TOTALS	127,271,532	936,287	0.74	236,471

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY
As at March 31, 1984

William M. Jay, A.C.I., C.C.C.E.	General Manager
Lloyd S. Blakney, M.C.I., D.P.A.	Chief Loans Officer
Eric G. Wood	Administration Officer
Colin N. Jackson, M.C.I.	Loan Officer II
Eric R. MacNeil, M.C.I.	Loan Officer II
Gerald F. Gahan, M.C.I.	Loan Officer II
Daniel W. Smith, M.C.I.	Loan Officer II
George G. McCabe, M.C.I.	Loan Officer II
Brian J. Gallant, B.B.A., M.C.I.	Loan Officer II
W. Hubert Proud, B.A.	Agricultural Loan Officer
Michael F. Bradley, Ag. Tech.	Agricultural Loan Officer
Mrs. Anne Bonnell, B.B.A., M.C.I.	Agricultural Loan Officer
J. Kevin Curley, B. Comm.	Agricultural Loan Officer
J. Kenneth MacDonald, M.C.I.	Fisheries Loan Officer
Ms. Marlene Peters	Secretary to the General Manager
Mrs. Eileen Norton	Accounting Technician I
Mrs. Elizabeth Boswall	Secretary/Receptionist
Mrs. Eleanor Giraud	Cashier/Secretary
Mrs. Beverley MacPhail	Secretary

CONSULTANTS TO MANAGEMENT:

Consulting Engineer	Mr. Norman F. Stewart P. Eng., Be. (Civil), M.E.I.C.

AUDITORS:

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

May 18, 1984

AUDITORS' REPORT TO THE ROAD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1984 and the statements of liability - Province of Prince Edward Island, interest income and expenses and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1984 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

PRINCE EDWARD ISLAND LENDING AUTHORITY
BALANCE SHEET AS AT MARCH 31, 1984

ASSETS

	1984	1983
	$	$
CURRENT ASSETS		
Cash	128,034	41,890
Short-term loans plus interest and miscellaneous items (Schedule A) (note 3)	3,392,176	3,724,002
Recoverable expenditures from Department of Finance	26,949	13,161
Sundry receivables	686	686
Property repossessed	-	-
MORTGAGE LOANS PLUS INTEREST (Schedule B)	36,003,151	25,358,074
	39,550,996	29,180,014

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 3)	133,845	3,000,000
Sundry liabilities (note 2)	35,405	135,509
	169,250	3,135,509
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 4)	39,381,746	26,044,505
	39,550,996	29,180,014

SIGNED ON BEHALF OF THE BOARD

Chairman

Secretary-Treasurer

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF LIABILITY—PROVINCE OF PRINCE EDWARD ISLAND
AS AT MARCH 31, 1984

	1984	1983
	$	$
BALANCE—BEGINNING OF YEAR	26,044,505	25,705,523
Add:		
Advances from Province	19,135,584	5,337,662
Interest on advances	4,264,720	3,698,623
Excess of interest income over interest expense	-	-
Debts collected that were written off	5,363	15,846
	49,450,172	34,793,543
Deduct:		
Payments made to Province	9,605,832	8,649,701
Excess of interest expense over interest income	63,738	-
Increase in provision for possible future losses on mortgage loans and receivables	398,856	99,337
	10,068,426	8,749,038
BALANCE—END OF YEAR	39,381,746	26,044,505

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF INTEREST INCOME AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 1984

	1984	1983
	$	$
INTEREST INCOME	4,384,030	3,784,929
INTEREST EXPENSE		
Bank	183,048	50,417
Province of P.E.I.	4,264,720	3,698,623
	4,447,768	3,749,040
EXCESS INTEREST INCOME (EXPENSE) FOR THE YEAR	(63,738)	35,889

PRINCE EDWARD ISLAND LENDING AUTHORITY
STATEMENT OF OPERATING FUNDS
FOR THE YEAR ENDED MARCH 31, 1984

	Budget (Note 5) Appropriation 1984	Actual 1984	Actual 1983
	$	$	$
OPERATING GRANT—PROVINCE OF PRINCE EDWARD ISLAND	815,100	805,268	729,903
OPERATING EXPENSES			
Salaries and wage levies	610,000	600,168	544,208
Rent-Office and office equipment	97,900	97,900	85,400
-Automobiles	17,470	17,470	18,360
Travel and field call expenses	14,030	14,030	13,135
Telephone	20,300	20,300	17,900
Professional fees	8,100	8,100	7,500
Directors fees and expenses	14,800	14,800	10,000
Office supplies	10,600	10,600	9,000
Insurance	1,700	1,700	1,600
Legal and collection costs	4,900	4,900	4,500
Repairs and maintenance	1,100	1,100	1,000
Furniture and fixtures	900	900	5,900
Postage	5,600	5,600	4,600
Advertising	2,600	2,600	2,000
General expenses	3,200	3,200	3,000
Loan costs	1,900	1,900	1,800
	815,100	805,268	729,903
EXCESS OPERATING GRANT FOR THIS YEAR	-	-	-

PRINCE EDWARD ISLAND LENDING AUTHORITY
SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST
AS AT MARCH 31, 1984

	Agriculture	Fisheries	Tourist	Small Small Business	Total Total 1984	Total 1983
	$	$	$	$	$	$
SCHEDULE A-SHORT-TERM LOANS						
Principal balances					3,479,145	3,819,489
Provision for possible future losses					86,969	95,487
					3,392,176	3,724,002
SCHEDULE B—MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority-						
Principal and interest balances	898,700	-	17,611	59,475	975,786	1,181,755
Accrued interest	22,830	-	703	709	24,242	29,756
	921,530	-	18,314	60,184	1,000,028	1,211,511
Provision for possible future losses	23,038	-	458	1,505	25,001	30,285
	898,492	-	17,856	58,679	975,027	1,181,226
Mortgage loans transacted by Lending Authority-						
Principal balances and interest due	18,984,422	2,399,127	7,715,094	5,518,191	34,616,834	23,730,906
Accrued interest	627,435	193,605	454,532	33,875	1,309,447	1,065,860
	19,611,857	2,592,732	8,169,626	5,552,066	35,926,281	24,796,766
Provision for possible future losses	490,296	64,818	204,241	138,802	898,157	619,918
	19,121,561	2,527,914	7,965,385	5,413,264	35,028,124	24,176,848
	20,020,053	2,527,914	7,983,241	5,471,943	36,003,151	25,358,074

PRINCE EDWARD ISLAND LENDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1984

1. ACCOUNTING POLICIES

Asset valuation

(i) The corporation has calculated a provision for future losses on loans based on a five year loss experience and local economic conditions. The provision results in a percentage of 2.5% and is applied to the year end balances of the loans.

(ii) Fixed assets are expensed in the accounts of the Authority on the date they are acquired.

2. SUNDRY LIABILITIES

	1984	1983
	$	$
These consist of the following:		
Subsidies received direct from the Government of Canada on behalf of inshore fishermen	21,361	133,509
Sundry expense items	14,044	2,000
	35,405	135,509

3. BANK ADVANCES

Bank advances are secured by a Government Guarantee to the extent of $2,500,000 plus a debenture to the extent of $5,000,000 on all working capital loans of the corporation.

4. LIABILITY—PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by debentures issued at varying interest rates and redemption periods. The total of these debentures outstanding at March 31, 1984 is $36,030,510. The balance of the liability is secured by a promissory note reissued monthly.

The aggregate principal payment made on the debentures on March 31, 1984 was $925,128.

5. BUDGET APPROPRIATION

The budget amounts were not audited.